

Message Text

LIMITED OFFICIAL USE

PAGE 01 BRASIL 00621 241724Z
ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 EB-08 TRSE-00 COME-00 XMB-02
AGRE-00 OMB-01 CIAE-00 INR-07 NSAE-00 /029 W
-----241800Z 024757 /46
P R 241550Z JAN 77
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 9741
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

LIMITED OFFICIAL USE BRASILIA 0621

E.O. 11652: N/A
TAGS: EFIN, BR
SUBJ: BRAZIL'S YEAR-END RESERVES

REF: (A) STATE 004116; (B) BRASILIA 0517

1. FOLLOWING INFORMATION IS PROVIDED IN
RESPONSE TO QUESTIONS POSED IN REFTEL A:

A. PRE-EXPORT FINANCING TAKES PLACE
WHEN AN EXPORTER BORROWS CRUZEIROS FROM HIS
LOCAL BANK AGAINST A FUTURE EXPORT. THIS
BORROWING CAN BE ACCOMPLISHED EITHER THROUGH
A STRAIGHT DOMESTIC CRUZEIRO LOAN OR THROUGH
A CRUZEIRO LOAN REPRESENTING THE LOCAL CURRENCY
COUNTERPART OF A FOREIGN LOAN. TO FULFILL THE
SECOND KIND OF TRANSACTION, BRAZILIAN BANKS
MAINTAIN CREDIT LINES (USUALLY IN DOLLARS)
WITH FOREIGN BANKS. WHEN AN EXPORTER REQUESTS
PRE-EXPORT FINANCING THROUGH THE FOREIGN LOAN
MECHANISM, THE LOCAL BANK DRAWS DOWN A
CREDIT LINE, CONVERTS THE FOREIGN EXCHANGE
INTO CRUZEIROS WITH THE CENTRAL BANK AND
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BRASIL 00621 241724Z

LEND THE PROCEEDS TO THE EXPORTER. WHETHER
THE EXPORTER CHOOSES ONE OR THE OTHER TYPE
OF FINANCING DEPENDS ON THE RELATIVE
INTEREST COST. A KEY CONSIDERATION IN THE
EXPORTER'S DETERMINATION IS HIS EXPECTATION
ABOUT FUTURE DEVALUATIONS OF THE CRUZEIRO,
SINCE UNDER THE FOREIGN FUNDED LOAN HE ASSUMES

THE EXCHANGE RISK. AT PRESENT THE INTEREST RATE DIFFERENTIAL IS IN FAVOR OF FOREIGN BORROWING (SEE REFTEL B). FINANCING TERMS AVERAGE 60 DAYS.

B. WITH RESPECT TO THE FOREIGN SOURCES OF PRE-EXPORT FINANCING, WE HAVE NO HARD FACTS SINCE THE CENTRAL BANK DOES NOT GIVE OUT ANY INFORMATION ON ITS SHORT-TERM BORROWINGS. IF WE ASSUME, HOWEVER, THAT SHORT-TERM BORROWING FOLLOWS THE SAME GENERAL PATTERN AS MEDIUM AND LONG-TERM CAPITAL INFLOWS, THEN ONE CAN ESTIMATE THAT CLOSE TO 50 PERCENT OF BRAZIL'S TOTAL PRE-EXPORT FINANCING COMES FROM U.S. BANKS AND THEIR FOREIGN AFFILIATES. AT THE END OF 1976, PRE-EXPORT FINANCING PROBABLY REACHED AN ALL TIME HIGH. A GOVERNMENT OFFICIAL HAS TOLD US THAT THE TOTAL WAS "OVER DOLS 1.0 BILLION", ALTHOUGH A NUMBER OF PRIVATE BANKERS HAVE INDICATED THAT THE FIGURE MAY BE UNDER DOLS 1.0 BILLION.

C. THE SECTOR THAT RECEIVES THE BULK OF THE PRE-EXPORT FINANCING IS AGRICULTURE, WITH COFFEE AND SOYBEANS BEING THE PRINCIPAL PRODUCTS.

D. WITH RESPECT TO THE EXPECTED IMPACT OF THIS BORROWING ON THE BALANCE OF PAYMENTS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BRASIL 00621 241724Z

POSITION IN 1977, THIS DEPENDS ON TWO FACTORS: (1) THE FROWTH OF EXPORTS AND (2) INTEREST RATE DIFFERENTIALS. THE HIGHER THE GROWTH OF EXPORTS, PARTICULARLY OF AGRICULTURAL PRODUCTS, THE GREATER THE POTENTIAL FOR PRE-EXPORT FINANCING. IF THE CURRENT INTEREST RATE DIFFERENTIAL IS MAINTAINED, THERE IS EVERY EXPECTATION THAT PRE-EXPORT FINANCING WILL CONTINUE TO BE AN IMPORTANT SOURCE OF FOREIGN BORROWING. SHOULD, HOWEVER, THE INTEREST RATE INCENTIVE FOR FOREIGN BORROWING BE GREATLY REDUCED OR EVEN ELIMINATED DURING THE COURSE OF THE YEAR, ONE CAN EXPECT THE UNWINDING (I.E., NET REPAYMENT) OF A GOOD PART OF THE CURRENTLY OUTSTANDING AMOUNT OF PRE-EXPORT FINANCING. IF THAT WERE TO OCCUR, IT WOULD TEND TO DECREASE OFFICIAL RESERVES TO A LEVEL WHICH IS MORE IN LINE WITH THE UNDERLYING GROWTH OF EXPORTS SINCE PRE-EXPORT FINANCING IS NOTHING MORE THAN ADVANCING

EXPORT RECEIPTS.
CRIMMINS

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN EXCHANGE HOLDINGS
Control Number: n/a
Copy: SINGLE
Sent Date: 24-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BRASIL00621
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770025-0429
Format: TEL
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770126/aaaaawie.tel
Line Count: 118
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 512b2bd2-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 STATE 4116, 77 BRASILIA 517
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 30-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3525626
Secure: OPEN
Status: NATIVE
Subject: BRAZIL'S YEAR-END RESERVES
TAGS: EFIN, BR
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/512b2bd2-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009